Report

of the

Examination of

Union Mutual Fire Insurance Company

Evansville, Wisconsin

As of December 31, 2000

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 18, 2001

Honorable Connie L. O'Connell
Commissioner of Insurance
State of Wisconsin
121 East Wilson Street
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2000, of the affairs and financial condition of

Union Mutual Fire Insurance Company

Evansville, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The last examination of this company was made in 1996 as of December 31, 1995. The current examination covered the intervening time period ending December 31, 2000, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on February 15, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Farmers Mutual Fire Insurance Company of the Town of Union. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties: Dane, Green, Jefferson, Rock, and Walworth.

The company is currently licensed to write property, including windstorm and hail and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of one year with premiums payable on the advance premium basis. Policy fees charged policyholders are retained by the company.

Business of the company is acquired through four agents, two of whom are directors of the company. Agents are presently compensated for their services with a 12% commission on new and renewal business. Prior to the last quarter of 2000 agents were compensated with a 15% commission on new and renewal business.

Each director has the authority to adjust losses. Losses in excess of $5,000 must be adjusted by more than one director. The salaried Secretary/Tearsurer/Manager, who adjusts most losses, does not receive additional compensation for inspections or adjusting losses. All other directors assisting in the adjusting of losses receive $25 for each loss adjusted. The company retains John Schrader as an outside adjuster for sizeable claims at $150 for each loss adjusted.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Donald Krajeck	Farmer	Evansville	2003
James Viney *	Farmer and Appraiser	Janesville	2003
Paul George	Farmer and Auctioneer	Brooklyn	2003
Edward Larson	Farmer	Evansville	2001
Raymond Ryan	Farmer	Janesville	2001
Edward Arnold	Farmer	Evansville	2001
Kenneth Haberman	Farmer	Janesville	2002
David Peterson, Sr.	Farmer	Janesville	2002
Steven K. Hagen *	Insurance Agent	Evansville	2002

Members of the board currently receive $25 for each meeting attended. Each director also receives a return of the commission paid on his own company policy. The directors identified with an asterisk also act as agents for the company.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

Name	Office	Annual Salary
Raymond Ryan	President	$1,000
James Viney	Vice-President	$500
Steven K. Hagen	Secretary/Treasurer/Manager	$2,700

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Because the directors meet frequently, the board has chosen to designate the entire board as the adjusting committee. Also the entire board serves as the agency committee and the inspection committee. The following additional committees have been appointed by the board:

Financial Committee **
James Viney, Chair
Edward Larson
Edward Arnold

Nominating Committee
Dave Peterson
Kenneth Haberman
Edward Arnold

Executive Committee
Raymond Ryan, Chair
James Viney
Steven K. Hagen

Audit Committee
James Viney, Chair
Edward Larson
Steven K. Hagen

** (Financial Committee also serves as the Policy Review Committee)

Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1996	$112,509	$33,808	492	$45,726	$592,260	$502,789
1997	116,112	92,334	501	(12,665)	604,298	489,755
1998	131,734	96,427	498	(4,039)	625,479	501,529
1999	131,448	21,325	498	71,688	671,950	574,253
2000	136,508	143,399	500	(47,744)	646,177	539,377

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Writings Ratios Net
1996	$270,357	$120,798	$502,789	54%	24%
1997	272,898	131,913	604,298	45	22
1998	271,444	127,834	625,479	43	20
1999	289,357	133,548	671,950	43	20
2000	316,947	144,908	646,177	49	22

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1996	$33,808	$58,701	$112,509	30%	49%	79%
1997	92,334	62,553	116,112	80	47	127
1998	96,427	66,322	131,734	73	52	125
1999	21,325	64,412	131,448	16	48	64
2000	143,399	71,725	136,508	105	49	155

The significant increase in Net Losses and Loss Adjustment Expenses incurred of $143,399 over 1999's $21,325 resulted from the following: On August 5, 2000 the company experienced 71 claims reported by policyholders that resulted in gross losses incurred increasing over 1999 by 2,874% to $399,197. The affect of the year 2000 windstorm was mitigated by reinsurance. A review of the 2001 loss register showed that on April 7, 2001 the company had 76 claims reported by policyholders from a windstorm. It is anticipated those losses for 2001 will develop similar to current examination period results.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with five coverage sections. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retention of risk complied with s. Ins 13.06, Wis. Adm. Code.

1.	Type of coverage:	Class A Casualty Quota Share
	Reinsurer:	Wisconsin Reinsurance Corporation
	Effective date:	January 1, 2000, Continuous
	Lines reinsured:	All written business classified as Casualty Business
	Company's retention:	None
	Coverage:	100% of each and every loss, including LAE, subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability. b. $1,000,000 split limits, in any combination of bodily injury and property damage liability. c. $5,000 for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	100% of net written premium
	Ceding commission:	15% of net premium written

2.	Type of Coverage:	Class B First Surplus
	Lines Reinsured:	All Property Business
	Company's retention:	When the company's net retention is $200,000 or more in respect to a risk, the Company may cede on a pro rata basis, and the Reinsurer shall be obligated to accept up to $800,000. When the company's net retention is $200,000 or less in respect to a risk, the Company may cede on a pro rata basis, and the Reinsurer shall be obligated to accept up to 50% of such risk. When a cession has been made hereunder, the Reinsurer shall be liable for the pro rata portion of each and every loss, including LAE, corresponding to the amount of the risk. An annual aggregate deductible, amounts equal to 10% of the loss and LAE otherwise recoverable.
	Reinsurance Premium:	The pro rata portion of all premiums, fees and assessments charged by the Company corresponding to the amount of each risk ceded.

	Ceding Commission:	A provisional commission of 15% of the ceded premium. The commission shall be increased by 1% for each 1% decrease in the loss ratio below 65% subject to a maximum commission of 35%.
3.	Type of Coverage:	Class C Excess of Loss First layer
	Lines Reinsured:	All Property Business
	Company's Retention:	Annual aggregate deductible of $30,000 and $30,000 per loss.
	Reinsurance Premium:	Net premium written multiplied by the sum of of four year's losses incurred divided by the total net premiums written for the same period multiplied by a factor of 100/80ths. Minimum Rate: 6% of the current net written premiums. Maximum Rate: 20.2% of the current net premiums written. The rate for the current annual period is 6%.
4.	Type of Coverage:	Class C Second Excess of Loss Reinsurance
	Lines reinsured:	All property business
	Company's retention:	$100,000
	Coverage:	100% of any loss in excess of the retention up to $100,000.
	Reinsurance Premium:	4.8% in respect to the business covered.
5.	Type of Coverage:	Class D/E Stop Loss
	Lines Reinsured:	All Property Business
	Company's retention:	Annual aggregate net losses up to 75% of the Company's net premium.
	Coverage:	100% of the annual aggregate net losses in excess of the retention.
	Premiums:	The net premiums written multiplied by the sum of the the eight years' losses incurred divided by the total of the net premiums written for the same period, multiplied by the factor of 100/80ths. Minimum Rate: 6% of NPW Maximum Rate: 25% of NPW The rate for the current annual period is 6%.

III. FINANCIAL DATA

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2000. Adjustments made as a result of the examination is noted at the end of this section of this report in the area captioned "Reconciliation of Policyholders' Surplus."

Union Mutual Fire Insurance Company
Statement of Assets and Liabilities
As of December 31, 2000

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in Company's Office	$125	$	$	$125
Cash Deposited in Checking Account	2,138			2,138
Cash Deposited at Interest	379,289			379,289
Bonds (at Amortized Cost)	56,928			56,928
Stocks or Mutual Fund Investments (at Market)	162,796			162,796
Real Estate (Net of Accumulated Depreciation and Encumbrances)	17,391			17,391
Premiums and Agents' Balances In Course of Collection	4,600			4,600
Premiums and Agents' Balances and Installments Booked But Deferred and Not Yet Due	17,600			17,600
Investment Income Accrued		5,310		5,310
TOTALS	$ 640,867	$ 5,310	$ 0	$ 646,177

Liabilities and Surplus

Net Unpaid Losses	$ 0
Unpaid Loss Adjustment Expenses	0
Commissions Payable	2,600
Fire Department Dues Payable	183
Net Unearned Premiums	83,400
Reinsurance Payable	3,584
Amounts Withheld for the Account of Others	334
Payroll Taxes Payable	214
Other Liabilities:	
Expense Related	
Accrued Property Taxes	2,990
Nonexpense Related:	
Advance From Reinsurer	11,395
Premiums Received In Advance	2,100
TOTAL LIABILITIES	106,800
Policyholders' Surplus	539,377
TOTAL	$646,177

Union Mutual Fire Insurance Company
Statement of Operations
For the Year 2000

Net Premiums and Assessments Earned	$136,508
Deduct:	
Net Losses Incurred	133,728
Net Loss Adjustment Expenses Incurred	9,671
Other Underwriting Expenses Incurred	71,725
Total Losses and Expenses Incurred	215,124
Net Underwriting Gain (Loss)	(78,616)
Net Investment Income:	
Net Investment Income Earned	29,771
Net Realized Capital Gains	0
Total Investment Income	29,771
Other Income:	
Miscellaneous Income	1,101
Net Investment and Other Income	30,872
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	(47,744)
Policyholder Refunds or Dividends	0
Net Income (Loss) Before Federal Income Taxes	$ (47,744)
Federal Income Taxes Incurred	0
Net Income (Loss)	$ (47,744)

Union Mutual Fire Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Period Ending December 31, 2000

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

Surplus as regards policyholders, December 31, 1995		$442,521
1996		
Net income (loss)	$45,726	
Net unrealized capital gains or losses	11,125	
Change in nonadmitted assets	3,417	
Change in surplus as regards policyholders for the year		60,268
Surplus as regards policyholders, December 31, 1996		502,789
1997		
Net income (loss)	$(12,665)	
Net unrealized capital gains or losses	(3,786)	
Change in nonadmitted assets	3,417	
Change in surplus as regards policyholders for the year		(13,034)
Surplus as regards policyholders, December 31, 1997		489,755
1998		
Net income (loss)	$(4,039)	
Net unrealized capital gains or losses	14,372	
Change in nonadmitted assets	1,171	
Change in surplus as regards policyholders for the year		11,504
Surplus as regards policyholders, December 31, 1998		501,259
1999		
Net income (loss)	$71,688	
Net unrealized capital gains or losses	971	
Change in nonadmitted assets	335	
Change in surplus as regards policyholders for the year		72,994
Surplus as regards policyholders, December 31, 1999		574,253
2000		
Net income	$(47,744)	
Net unrealized capital gains or losses	12,868	
Change in nonadmitted assets	0	
Change in surplus as regards policyholders for the year		(34,876)
Surplus as regards policyholders, December 31, 2000		539,377

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Underwriting—It is recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

   Action—Compliance.

2. Underwriting—It is recommended that the town mutual provide more timely notice to reinsurer when material changes in policy coverages necessitate changes in facultative ceding percentages.

   Action—Compliance.

3. Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat; and s. Ins. 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employes which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Professional Liability	$2,000,000
General Liability	500,000
Fidelity Bond	50,000
Property Coverage:	
Building	58,000
Personal Property	25,000
Worker's Compensation	Statutory

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5 A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2000.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and sometimes twice a day and the backed-up data is kept off-site.

A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

Disaster Recovery Plan

A disaster recovery plan identifies steps to be performed in case the company loses a key employe, is not able to access its computer, information on its computer was lost, or the office building was destroyed, to name a few contingencies. The company has developed a disaster recovery plan.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least two officers, directors or employes of the company.

The company is in compliance with these requirements.

Transition into the New Investment Rule

On January 1, 1996, the investment rule for town mutuals was amended to allow town mutuals to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as “Type 2”) provided that the town mutual has a sufficient amount of lower risk investments (referred to as “Type 1”). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$406,800
2.	Liabilities plus 33% of gross premiums written	$211,393
3.	Liabilities plus 50% of net premiums written	$179,254
4.	Amount required (greater of 1, 2, or 3)	$406,800
5.	Amount of Type 1 investments as of December 31, 2000	$414,939

6.	Excess or (deficiency)	$ 8,139

The company has sufficient Type 1 investments.

The new investment rule prescribes that a town mutual shall divest any investment, which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. Currently the company has no investments which are not in compliance with the new investment rule.

ASSETS

Cash and Invested Cash **$381,552**

The above asset is comprised of the following types of cash items:

Cash in company's office	$125
Cash deposited in banks-checking accounts	$2,138
Cash deposited in banks at interest	$379,289
Total	$381,552

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one bank account. Verification of checking account balances was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of fourteen deposits in seven depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2000 totaled $21,627 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 4.89% to 6.86%. Accrued interest on cash deposits totaled $4,380 at year-end.

Book Value of Bonds **$56,298**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2000. Bonds were physically inspected by the examiners.

Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2000 on bonds amounted to $4,958 and was traced to cash receipts records. Accrued interest of $930 at December 31, 2000, was verified and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$162,796**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2000. Stock certificates were physically examined by the examiners.

Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2000 on stocks and mutual funds amounted to $6,420 and were traced to cash receipts records.

The company reported no accrued dividends at December 31, 2000.

Book Value of Real Estate **$17,391**

The above amount represents the company's investment in real estate as of December 31, 2000. The company's real estate holdings consisted of the company's office building in Evansville, Wisconsin.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

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Agents' Balances or Uncollected Premiums **$4,600**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset

Deferred Premiums **17,600**

The above ledger balances represents premium, agents' balances, and installments booked but deferred and not yet due. A review of individual accounts verified the accuracy of this asset.

Investment Income Due and Accrued **$5,310**

Interest due and accrued on the various assets of the company at December 31, 2000, consists of the following:

Cash at Interest	$4,980
Bonds	930
Total	$5,310

The accuracy of these accruals was verified by reclaculating accruals on a sample basis and a review of subsequent cash receipts records.

Reinsurance Recoverable On Paid Losses and Loss Adjustment Expenses **$0**

The company reported no reinsurance recoverable on Paid Losses and Loss Adjustment Expenses. A review of the company's loss register and the Year 2000 paid claims reported by reinsurer showed that the company had no pending paid losses recoverable at December 31, 2000.

Liabilities And Surplus

Net Unpaid Losses **$0**

This liability represents losses incurred on or prior to December 31, 2000, and remaining unpaid as of that date. The examiners' development of unpaid losses was compared to the company's loss register and paid loss borderaus from the reinsurer. Differences are reflected in the section of this report captioned "Reconciliation of Policyholders' Surplus."

	Company Estimate	**Examiners' Development**	**Difference**
Incurred But Unpaid Losses	$56,371	$61,602	$5,231
Less: Reinsurance Recoverable on Unpaid Losses	$56,371	$61,602	$5,231
Net Unpaid Losses	$0	$0	$0

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2000. To the actual paid loss figures was added an estimated amount for those 2000 and prior losses remaining unpaid at the examination date, if any. However, the company met its stop loss attachment point for 2000, so the entire amount of these losses is recoverable from the reinsurer. As a result, the net development on 12/31/00 unpaid losses was zero.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period.

The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$0**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2000, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is materially correct.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$2,600**

This liability represents the company's portion of commissions incurred prior to December 31, 2000. Supporting Records and subsequent cash disbursements verified this amount.

Fire Department Dues Payable **$183**

This liability represents the company's portion of fire department dues payable incurred prior to December 31, 2000. Supporting records and subsequent cash disbursements verified this amount.

Unearned Premiums **$83,400**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology. The examiners determined this liability was fairly stated by testing the company's calculation, tracing premium records, and performing analytical review of unearned premium to written premium.

Reinsurance Payable **$3,584**

This liability consists of amounts due to the company's reinsurer at December 31, 2000, relating to transactions which occurred on or prior to that date.
Subsequent cash disbursements or reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$334**

This liability represents employe payroll deductions in the possession of the company at December 31, 2000. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$214**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2000, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$0**

The company reported no incurred amounts for this account prior to December 31, 2000. A search for unrecorded liability determined that $681 in expenses was incurred as of December 31, 2000. However, no adjustment was made to surplus as this was considered an immaterial amount. It is recommended that the company properly record an accounts payable on the annual statement.

Accrued Property Taxes **$2,990**

This liability represents the company's portion of property taxes incurred prior to December 31, 2000, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Advance From Reinsurer **$11,395**

This liability represents the company's portion of advanced funds from reinsurer based on stop loss estimates incurred prior to December 31, 2000, which had not yet been paid. Supporting records from reinsurer verified this item.

Premiums Received in Advance **$2,100**

This liability represents the company's portion of premiums received in advance from policyholders prior to December 31, 2000. Supporting records and cash receipts verified this item.

V. CONCLUSION

The company has increased its surplus by 7.3% and its assets by 9.1% over the past four years. These increases have been accomplished with policy in-force remaining at its current level of 500 policies. A 10% increase in 2000 Gross Premiums Written over 1999 is due to premium rate increases.

As a result of the 71 claims reported by company with the August 5, 2000 windstorm, gross losses incurred increased significantly over 1999 by 2,874% to $399,197. The recent windstorm of April 7, 2001 the company reported 76 claims, and it is expected that losses will develop similar to current year results.

The examiners determined that the company had complied with all three of the prior examination recommendations. Also, the company has adequately addressed the suggestions, which were noted in prior examination report. The examination of the company's financial statements were verified in the report with no adjustments being made to policyholders' surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - It is recommended that the company properly record an amount for accounts payable on the annual statement.

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Kerri Miller of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

DuWayne A. Kottwitz
Examiner-in-Charge